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RR RUEHLMC
DE RUEHLM #0376/01 0651239
ZNR UUUUU ZZH
R 061239Z MAR 07
FM AMEMBASSY COLOMBO
TO RUEHC/SECSTATE WASHDC 5591
INFO RUEATRS/DEPT OF TREASURY WASHDC
RHMFIUU/FBI WASHINGTON DC
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC
RHEFHLC/DEPT OF HOMELAND SECURITY WASHINGTON DC
RUEHNE/AMEMBASSY NEW DELHI 0716
RUEHKA/AMEMBASSY DHAKA 9942
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UNCLAS SECTION 01 OF 02 COLOMBO 000376

SIPDIS

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SENSITIVE

STATE FOR SCA/INS, S/CT, AND EEB/ESC/TFS

MCC FOR S GROFF, D NASSIRY AND E BURKE

E.O 12958: N/A

TAGS: EFIN ETTC KFTN LE PREL PTER CE

SUBJECT: TERRORIST FINANCE: SRI LANKA ENFORCING AGAINST ILLICIT CASH COURIERS TO THE EXTENT IT CAN

REF: STATE 16120

¶1. (SBU) Summary: Sri Lanka Customs and the Central Bank's Financial Intelligence Unit are actively attempting to prevent illicit cash courier activity and are aware of the issues raised in reftel. They have had some success in disrupting transactions, but have been less effective in figuring out what illicit activities those transactions supported. Both agencies would welcome training if available. End summary.

¶2. (SBU) Econoff met with senior officials at Sri Lanka Customs and the Central Bank's Financial Intelligence Unit (FIU) as requested in reftel to express USG concern over illicit cash couriers and to discuss Government of Sri Lanka (GSL) efforts against illicit cash couriers. Both agencies were familiar with the issue and shared USG concerns.

SRI LANKA CUSTOMS IS ON THE BALL BUT WELCOMES HELP

¶3. (SBU) L.M. Nelson, Deputy Director of Customs and Head of the Customs Intelligence Unit, was aware of the crime and security issues associated with cash smuggling. He said that Sri Lanka Customs, which has border control responsibility at sea and air ports, is convinced that cash smuggling undermines economic stability and the rule of law. According to Nelson, Sri Lanka Customs disrupted 24 cash smuggling attempts in 2006, seizing various currencies with a value of USD 1.96 million.

¶4. (SBU) Most of these seizures involved outbound cash. Cases of inbound cash smuggling were unusual, Nelson said. He explained that cash smuggling attempts often involved civilian security staff at Colombo's Bandaranaike International Airport, who hand over cash to Singapore-bound Indian passengers in the airport transit lounge. Sri Lanka Customs generally found it hard to ascertain the source or the intended destination of funds. Nelson thought three scenarios were most common: attempts to launder drug profits; completion of commercial transactions that involved undervaluation goods to avoid taxation; and possible financing of arms transactions for the ethnic separatist Liberation Tigers of Tamil Eelam (LTTE).

¶ 15. (SBU) Nelson noted that Sri Lanka Customs has necessary legal and operational authorities to enforce against cash smugglers at Customs borders. The Exchange Control Act requires that travelers declare cash over the value of USD 10,000. The Customs Ordinance gives Sri Lanka Customs administrative authority to investigate and arrest those who fail to declare cash as required, and to seize their cash or other assets. The ordinance also permits the Customs to impose administrative penalties of forfeiture and fines of up to three times the value of cash seized. These administrative penalties do not require referring the cases to court. If violators fail to pay Customs-imposed penalties, the government can file action in court, which can result in imprisonment.

¶ 16. (SBU) With regard to intelligence sharing, Nelson noted that Sri Lanka Customs works with the Asia Pacific regional liaison office of the World Customs Organization. Nelson acknowledged that weaknesses exist in Sri Lanka Customs' ability to detect cash smuggling, and that much cash smuggling probably goes undetected due to Customs' resource constraints. He said that Customs would welcome training for its officers in detecting cash smuggling and in identifying the individuals or organizations conducting it.

FIU ALSO AWARE AND ACTIVE ON CASH COURIERS

¶ 17. (SBU) The Central Bank of Sri Lanka's Financial Intelligence Unit (FIU) focuses heavily on preventing funds from flowing to the LTTE, both through bank transactions and cash couriers. According to George Fernando, Chief Executive Officer of the FIU, four pieces of legislation provide the framework for dealing with cash couriers: the Prevention of Money Laundering Act No. 5 of 2006 (PMLA), the Financial Transactions Reporting Act No. 6 of 2006 (FTRA), the Customs Ordinance, and the Exchange Control Act.

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¶ 18. (SBU) Fernando explained that the FTRA contains a section concerning cash used in connection with money laundering or financing of terrorism. The act authorizes the FIU to work with law enforcement. Accordingly, FIU is attempting to improve information sharing with Sri Lanka Customs. The FIU had asked Customs not to release cash couriers after seizing their cash, but to detain them and coordinate with the FIU on their disposition.

¶ 19. (SBU) The FIU was concerned with the trend involving couriers trying to move cash to Singapore. To Fernando, the intent of such transactions was clear: to finance LTTE arms purchases. He explained that overseas worker remittances were often return to Sri Lanka in cash form and changed to rupees outside the banking system. The hard currency from these transactions was then smuggled out for deposit in Singapore banks, which asked few questions about the origin of the cash. Fernando said that the Police are currently investigating unauthorized money changers, and that a number of illegal money changers in Colombo had closed down as a result.

FIU'S LIAISON WORK NOT PRODUCING RESULTS

¶ 10. (SBU) Fernando added that he had informally raised this cash smuggling pattern with Indian and Singaporean authorities, but had not gotten much cooperation yet. Sri Lanka was pursuing formal memoranda of understanding for such liaison, as required by the two governments (though not required by Sri Lanka).

SRI LANKA IMPLEMENTING FATF AND UN REQUIREMENTS

¶ 11. (U) Sri Lanka is a party to the UN International Convention for the Suppression of the Financing of Terrorism. According to Fernando, the FTRA provides a legal framework for Sri Lanka to cooperate with and provide assistance to other state parties to the Convention with regard to investigations and prosecutions. Sri Lanka is also a member of the Asia Pacific Group, and has applied to become a member of the Egmont group. In addition, the Mutual Assistance in Criminal Matters Act of 2002 provides for cooperation in criminal matters with Commonwealth countries and with

non-Commonwealth countries with which Sri Lanka has entered into a bilateral agreement on mutual assistance in criminal matters.

COMMENT

¶12. (SBU) The GSL, which for years has attempted to interrupt funding of the LTTE (a U.S. designated Foreign Terrorist Organization), is eager to increase its capacity to control cash smuggling. The USG currently has stationed a Treasury advisor to work with Sri Lanka's FIU on the full range of its activities. Post also notes that on March 2, a leading local newspaper reproduced a USINFO article entitled "Asset Forfeiture - Effective Way to Fight International Crime."